

FINANCE, AUDIT AND RISK COMMITTEE
11 June 2025

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2024/25

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILITY

1 EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2024/25, there is a reduction in Capital spend compared to quarter 3 of **£5.454million**. The majority of this change is due to revisions to the profile of planned project spend, with **£5.239million** that will now instead be incurred in 2025/26.
- 1.2 During the year the Council has generated **£2.983million** of interest from its investments. This is an increase on the budget reported Quarter 3 (£2.955M), and significantly more than the original budget of £1.150million.
- 1.3 The Council has repaid £0.022million of borrowing during the year as it has matured. The Council has £0.325million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.4 The Council complied with its legislative and regulatory requirements throughout the year.

2. RECOMMENDATIONS

That the Committee comment and make recommendations on the risks and assumptions in relation to the recommendations that are made to Cabinet, which are:

- 2.1 That Cabinet notes expenditure of £11.362million in 2024/25 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2025/26 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend by £5.202million.

- | | |
|-----|--|
| 2.3 | That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.7 and the requirement to keep the capital programme under review for affordability. |
| 2.4 | That Cabinet approves the application of £3.787million of capital receipts/set aside towards the 2024/25 capital programme, paragraph 8.7 refers. |
| 2.5 | Cabinet is asked to note the position of Treasury Management activity as at the end of March 2025. |
| 2.6 | Cabinet is asked to recommend this report to Council and ask Council to:

1) Approve the actual 2024/25 prudential and treasury indicators as detailed in Appendix B.
2) Note the annual Treasury Management Review for 2024/25 (Appendix B). |

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.
- 4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

- 5.2 There are regular meetings with Treasury advisors (MUFG, previously known as Link).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 17th April 2025.

7. BACKGROUND

- 7.1 In February 2024, Council approved the Integrated Capital and Treasury Strategy for 2024/25 to 2033/34.
- 7.2 The Council will seek opportunities to utilise capital funding for 'invest to save' schemes. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure. Capital spend will also be necessary to ensure the continued provision of services and delivery of priorities.
- 7.3 MUFG are contracted to provide Treasury advice. The service includes:
- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
 - Information on investment counterparty creditworthiness
 - Technical updates
 - Access to a Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

- 8.1 The Council has £122million of capital assets that it currently owns (as at 31 March 2024). The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no significant changes in relation to these since the Strategy was set.

Capital Programme 2024/25

- 8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the actual spend from 2024/25 to 2034/35 and the funding source for each capital scheme.
- 8.3 The Outturn Capital expenditure for 2024/25 is **£11.362million**. This is a reduction of **£5.454million** on that reported at the end of the third quarter. The decrease in spend is largely due to re-profiling spend into 2025/26. Table 1 below details the changes from what was reported at Quarter 3.

Table 1- Current Capital Estimates

	2024/25 £M	2025/26 £M	2026/27 to 2034/35 £M
Budget Reported at Q3	16.816	21.690	23.560
Public Sector Decarbonisation project		1.143	
Changes as detailed in this report	-5.454	5.202	
Current Capital Estimates	11.362	28.035	23.560

8.4 Table 2 lists the schemes in the 2024/25 Capital Programme that will start or continue in 2025/26:

Table 2: Scheme Timetable Revision:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2024/25 Working Budget £'000	2024/25 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2025/26 £'000
Public Sector Decarbonisation Project	8,590	6,442	-2,148	The PSDS Project spans over 2024/25-2025/26. Year 1 spend includes pre-construction fees and early order of materials. Y2 includes construction contract.	2,148
Museum Commercial Storage	1,350	0	-1,350	Purchase was agreed the tail end of last financial year and is expected to complete in the next month or so	1,350
Infrastructure Hardware	375	0	-375	Carrying forward the spend to 25/26 and implementing in August-November 25 will allow us to procure technology and systems more appropriate for the next 4 years.	375
NHLC Air Handling Units	250	0	-250	Budget merged with PSDS	250
Parking Charging Payments Management System	235	0	-235	Linked to the parking machine replacement works.	235
Parking Machines Replacement	291	140	-151	Reflects the cost of the work completed by the end of the year, with further upgrades to take place in 25/26.	151
Property Improvements	165	39	-126	Some works identified by previous surveys as being required in the future have	126

Scheme	2024/25 Working Budget £'000	2024/25 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2025/26 £'000
				found not to be necessary by our Building Surveyor and a variety of works that were previously funded from this capital budget do not meet the criteria to be capitalised and consequently are funded through the revenue budget. In addition a few premises are awaiting longer term strategic decisions on their future.	
Match Funding Electric Vehicle charging	100	0	-100	Not required so far to enable EV charging installation which has been funded by grants and private sector. To be reviewed during 25/26 as may not be needed.	100
RLC Members Change Refurb	200	127	-73	Members accessible changing refurbishment to take place June 2025	73
Lairage Stairwells Windows/doors Decoration	75	6	-69	New PVC windows have been installed to two of the stairwells. There were plans to apply a coating to the concrete stairs however, since the budget was approved it's been decided to seek a full structural survey of the car park and as a result this work has been put on hold.	69
Community Centres Flat Roof Safety	43	0	-43	Two community centres were identified as requiring safety rail upgrade works. Since then, it was discovered that the roof at one of the community centres is in poor condition and as a consequence the roof safety rail works has been placed on hold.	43
Royston Leisure Centre Extension	250	212	-38	Budget merged with PSDS	38
Upgrade 25 Parking Machines	56	18	-38	Reflects the cost of the work completed by the end of the year, with further upgrades to take place in 25/26.	38

Scheme	2024/25 Working Budget £'000	2024/25 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2025/26 £'000
Home Repair Assistance	75	38	-37	The Carry forward will enable more of our residents the opportunity to seek financial assistance should they need to, and should they qualify. The spend on this budget is demand led and a review of the provisions of these grants is planned during 25/26 to raise awareness and make this money available to more local residents.	37
Bury Mead Road Transfer Facility	30	0	-30	The work has not yet been completed as this impacts on the operational availability of the site and other planned works to improve the site being facilitated by HCC. It is anticipated to be completed in 25/26.	30
Total Minor (under £25k) slippage on other projects	280	103	-176		176
Changes to 25/26 Budget					-37
Total Revision to Budget Profile			-5.239		5.202

- 8.5 There are also changes to the overall costs of schemes in 2024/25. These changes total a net decrease of £0.215million and are detailed in Table3.

Table 3: Changes to Capital Schemes Commencing in 2024/25:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2024/25 Working Budget £'000	2024/25 Spend £'000	Difference £'000	Comments
Leased Vehicles and Grounds Maintenance Vehicles and Machinery	456	210	-246	This budget was set for an accounting requirement to show vehicles (and equipment) as our assets when previously they have been shown as lease costs or part of a contract total. The budget was set when this was first going to be implemented as an accounting requirement but was then delayed. The variance is mainly due to us now having more leased vehicles (+£69k), but following detailed assessment the vehicles contained within the Grounds contract should not be treated as our asset (-£315k). These accounting adjustments do not affect the amounts that we pay for leases/ contract sums.
Technology One Implementation	156	190	34	Overspend due to additional consultancy support to implement the new finance system. This was to reduce the pressure on Officers and also reflected the complexity of the Accounts Receivable module.
Environmental Improvements to Leisure Centres	78	0	-78	Works completed within budget in 23/24
Other minor changes			75	
Total revision to scheme spend			-215	

8.6 The following capital schemes have been completed during 2024/25:

- Completion of all remaining works on the Playground Renovation projects for 23/24
- Technology One Implementation
- Old Hale Way Allotments
- Newmarket Road Skatepark
- Oughtonhead Common Footpaths
- Bancroft & Priory Splash Pads
- St Johns Cemetery Footpaths
- Ivel Springs Footpaths
- John Barker Place
- Various Leisure Facilities Refurbishments

Capital Programme 2024/25 Funding onwards

8.7 Table 4 below shows how the Council have funded the 2024/25 capital programme.

Table 4: Funding the Capital Programme:

	2024/25 Balance at start of year £M	2024/25 Additions £M	2024/25 Funding Used £M	2024/25 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	4.914	0.070	(3.783)	1.201
S106 receipts			(1.029)	
Other third party grants and contributions			(6.550)	
Revenue Contributions / IT Reserve			0	
Planned Borrowing			0	
Total			(11.362)	

8.8 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change.

8.9 The Council's Capital Financing Requirement (CFR) at 31st March 2025 was negative £0.578 million (negative £2.583 million 31st March 2024). As the CFR is negative the Council does not have a need to borrow to fund capital spend. However, should the Capital programme be fully spent in 25/26 there will be a potential need to borrow £20.9M. This will have an impact on the revenue budget by way of a Minimum Revenue Provision (MRP) charge in 26/27. We will look to borrow internally against cash reserves,

so as the money is spent it will reduce the income we generate from treasury investments (which is currently over 5%, but is expected to decrease over time).

Treasury Management 2024/25

- 8.10 The Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. There was a minor breach of investment limits for one day, as detailed in Appendix B.
- 8.11 The Council generated £2.983M of interest during 2024/25. The average interest rate agreed on new deals during the year was 5.26%. The average interest rate on all outstanding investments at the 31st March was 5.1%.
- 8.12 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.
- 8.13 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.

The Council's counterparty list for 2024/25 comprised UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.

- 8.14 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.15 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

Investing long term (greater than one year) currently achieves lower interest rates than short term deals. The risks of long term deals are:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures. Conversely, rates could fall and it is better to have locked in to a higher rate.

- 8.16 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than £7M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council didn't have any investments invested for longer than 365 days.
- 8.17 **Interest (Yield)** – The Bank of England decreased Bank Rate three times during 2024/25 starting the year at 5.25% and ending at 4.5%. With investments being kept relatively short for cashflow the yield on investments reduced as the year went on. £2.983million of interest was received during the year compared to £2.941million in 2023/24.
- 8.18 The investments outstanding at the 31 March 2025 were £45.0million. This compares to a balance of £46.0million at 31 March 2024. Investment in capital projects will continue

during 2025/26 and the estimated investment interest for 2025/26 was set at £0.8250million. This estimate will be revised in the 1st quarter monitoring report to reflect a higher level of balances available to invest due to capital slippage and a higher interest rate than anticipated.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Finance, Audit and Risk Committee's terms of reference under 10.1.5 (f) contain "[t]o review the financial performance of the Council in relation to its policy objectives, and budgetary amounts, and to make recommendations to Cabinet (unless legally reserved to Full Council) on any matter arising out of the finance monitoring and review process within the terms of this Committee".
- 9.3 Section 151 of the Local Government Act 1972 states that:
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."
- 9.4 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.
- 9.5 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next ten-year programme it should be anticipated that the total spend over the period could be £4.039million higher than the budgeted £51.595million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £42k per year in interest (4.2%). The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further

capital spend. The CFR at the 31 March 2025 was negative £0.578million. This may turn positive in 25/26.

- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

- 11.1 Good risk management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Ideagen (the Council's Performance & Risk management software).
- 11.3 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependent on banks and building societies need for borrowing.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2024/25 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. The Social Value Act and "go local" requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1 There are no direct human resource implications.

16. APPENDICES

- 16.1 Appendix A, Capital Programme Detail including Funding 2024/25 onwards.
Appendix B, Treasury Management Update.

17. CONTACT OFFICERS

- 17.1 Report Writer – Dean Fury, Corporate Support Accountant, Tel 474509,
Dean.fury@north-herts.gov.uk

Ian Couper, Service Director: Resources, Tel 474243, email
ian.couper@north-herts.gov.uk

Antonio Ciampa, Accountancy Manager, Tel 474566, email,
Antonio.ciampa@north-herts.gov.uk

18. BACKGROUND PAPERS

- 18.1 Investment Strategy (Integrated Capital and Treasury Strategy)
<https://srvmodgov01.north-herts.gov.uk/documents/s24164/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf>
<https://srvmodgov01.north-herts.gov.uk/documents/s24165/FAR%20Appendix%20A-%20Integrated%20Capital%20and%20Treasury%20Strategy.docx.pdf>